

IN THE
Supreme Court of the United States.

OCTOBER TERM, 1939.

No. 482.

EDWARD SHELDON and MARGARET AYER BARNES,
Petitioners.

—against—

METRO-GOLDWYN PICTURES CORPORATION, METRO-
GOLDWYN-MAYER DISTRIBUTING CORPORATION,
LOEW'S, INC. and CULVER EXPORT CORPORATION,
Respondents.

**BRIEF FOR RESPONDENTS IN OPPOSITION TO
PETITION FOR WRIT OF CERTIORARI.**

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**BRIEF FOR RESPONDENTS IN OPPOSITION TO
PETITION FOR WRIT OF CERTIORARI.**

The petition for writ of certiorari, in opposition to which this brief is submitted, was filed on October 25, 1939. The respondents, as petitioners, also filed a petition for writ of certiorari in this case on November 4, 1939, to secure a review of the interlocutory judgment entered on January 25, 1936. The petition herein is one to review solely the bases taken by the Court below for its award of profits. The petition filed by respondents, as petitioners, seeks a review of the interlocutory judgment of the Circuit Court of Appeals, in which infringement was found and in which the decree of the District Court dismissing the complaint was reversed.

Note—Italics throughout brief supplied by respondents.

Opinions Below.

The opinion of the District Court on the motion to confirm the Special Master's report is reported in 26 Fed. Supp. 134. The opinion on the cross appeals taken from the judgment entered on the Master's report is reported in 106 F. (2d) 45.

The opinion of the District Court directing a dismissal of the complaint is reported in 7 Fed. Supp. 837, and the opinion of the Circuit Court of Appeals, finding infringement and reversing the decree of dismissal, is reported in 81 F. (2d) 49.

Outline of Matters Involved.

The petition filed by the respondents, as petitioners, contains a statement of facts on behalf of the respondents which recites the salient facts involved in the proceedings prior to the interlocutory judgment, and also corrects certain inaccuracies and omissions in petitioners' statement of facts.

Petitioners in their outline state that "both the Master and the District Court refused to apportion the profits." The Master's report (R. # 957) shows that he considered the decree appointing him merely as a peremptory direction "to ascertain and report the amount of complainants' damages herein and the amount of such gains and profits of the defendants," etc. In this he was in error for as was pointed out in

* The record filed with this petition contains the interlocutory decree of July 29, 1936 upon the mandate of the Circuit Court of Appeals, the proceedings before the Special Master and all subsequent proceedings which will be referred to herein as the accounting record, abbreviated "R." With the petition of respondents, there has been filed the record containing all proceedings prior to the accounting which will be referred to as the prior record, abbreviated "P. R."

Lawrence-Williams Co. v. Societe Enfants, Etc. (C. C. A. 6), 52 F. (2d) 774, 777, the decree followed the customary formula.

The District Court assigned as its reason for not making an actual apportionment of profits that it was bound by the decision in *Dam v. Kirk La Shelle Co.* (C. C. A. 2), 175 Fed. 902, saying: " * * * even though I believe it 'runs counter to the course later followed' by that Court in apportioning profits in patent infringement cases and to the arguments therein expressed" (R. 1198), and later added: "In my opinion it is punitive and unjust to award all the net profits of the motion picture 'Letty Lynton' to the complainants in this case" (R. 1200). The Court further stated (R. 1202):

"If we are 'to avoid instances of grotesque injustice' then 'we must adopt some working rule' similar to that employed in patent infringement cases, *Page Machine Co. v. Dow Jones & Co.* (238 Fed. 369, 376). A result such as we have in the present case may lead to the adoption of such a rule, either through the decision of an appellate court, giving a more reasonable interpretation of Section 25 of the Copyright Act, or by Congress amending the Act. *Jewell-LaSalle Realty Co. v. Buck*, 283 U. S. 202, 208."

The District Court then made what was in effect a finding that:

"An allowance to complainants of 25% of the net profits, as restated, or about \$133,000 would be such a sum as could be justly fixed as a limit beyond which complainants would be receiving profits in no way attributable to the use

of their play in the production of the picture. Sir James Barrie received 7% of the gross receipts from the motion picture based on 'Peter Pan'. For that he assigned the motion picture rights to his famous play and the right to use the name as the title of the picture. The gross receipts in the case at bar from the picture 'Letty Lynton' were \$1,655,269.15, of which 8% would be about \$132,500. In my opinion the testimony before the special master would justify a finding in this case that the profits these defendants made from their use of complainants' play 'Dishonored Lady' did not exceed 25% of the net profits from the picture, as hereinafter fixed; or, if a royalty basis should be used, 8% of the gross receipts. It requires no expert testimony to show that the use of complainants' play 'Dishonored Lady' did not contribute the entire 100% of the net profits realized from the picture 'Letty Lynton'. Yet that is what this judgment gives the complainants" (R. 1202).

The failure of the District Court actually to make such an apportionment has been criticized: 48 Yale Law Journal, 1279 (May 1939); 52 Harvard Law Review, 688 (February 1939).

Facts.

Petitioners (at p. 3 of the Petition) in referring to the fact that the parties had agreed on a price and that a formal contract had been prepared, omitted to state that this contract had actually been signed by petitioners and was delivered to respondents pursuant to a written agreement whereby respondents

were also to sign such contract "contingent upon their (plaintiffs) being able to secure the approval of the Hays Office of their use of this play for picture purposes" (P. R. 789). The District Court found that both parties had made *bona fide* efforts to have this ban of the Hays Organization removed (P. R. 892), but such efforts were *unsuccessful* because of the obscenity of the play (P. R. 27, 49, 65; R. 664-6). The final refusal by the Hays Organization to lift such ban was announced on June 1, 1931, and further efforts to acquire these motion picture rights were then abandoned (P. R. 76, 148).

As to the novel "Letty Lynton"; of which Marie Belloc-Lowndes was the author, it was conceded by stipulation at the trial (Defts.' Ex. B—P. R. 814-26) that this novel was completed in the latter part of the year 1929, and further that this was done before the author ever saw or heard of the play and that it was entirely her own work (P. R., fol. 2448).

After a period of negotiations, the contract for the purchase of the motion picture rights for this novel from Mrs. Lowndes was executed on December 4, 1931 (Defts.' Ex. D—P. R. 826).

\$30,000 was the price which petitioners asked for the motion picture rights to the play "Dishonored Lady" (P. R. 789) and the price at which Mrs. Barnes "hoped very much we would make the sale", etc. (P. R. 50). Petitioners' agent in the sale of these rights testified (R. 668): "It (the \$30,000) was the only actual price we had from anybody."

As will be seen, petitioners are seeking to recover an amount approximating \$600,000, about twenty times the amount at which they would have been willing to sell outright the motion picture rights. The judgment of the Circuit Court of Appeals, which they

seek by this proceeding to review, awarded an amount approximating \$120,000, or about four times the amount at which they would have been willing to sell the motion picture rights.

The Question Presented.

On a finding of a *pro tanto* infringement (R. 1303) by a motion picture of a copyrighted play which the plaintiffs were willing to and actually did contract to sell for \$30,000,

(a) Must a court of equity award to the plaintiffs *all* the profits earned from the production, distribution and exhibition of the infringing motion picture, domestic as well as foreign, which, in this case amounted to approximately \$600,000, without any apportionment whatever of such profits on the basis of the contributions made to the commercial success of such motion picture by the Producing Company, by the stars appearing in such picture, by the producer, by the director and by other factors, separate and apart from the copyrighted property, which made the motion picture a new and distinctive creation and gave it commercial value as a marketable commodity; or

(b) May the Court in such circumstances, in the administration of the remedy of an award of profits, a remedy which Equity itself devised and controls, and in order to avoid "grotesque injustice", take into consideration all such contributions to the commercial success of the picture and award to the plaintiffs the profits fairly and equitably attributable to the use made of the copyrighted property, in that connection giving the plaintiff the benefit of every reasonable doubt?

The Petitioners' Contention.

The petitioners' contention is that under Section 25(b) of the Copyright Act of 1909, petitioners are entitled to recover all the net profits earned by the motion picture "Letty Lynton", without any apportionment whatever.

The Respondents' Contention.

The contention of the respondents, both before the Special Master and in the Courts below, was that the interlocutory decree of the District Court does not authorize an award of the entire net profits of the picture to the plaintiffs, nor does the Copyright Act of 1909, nor do the decisions of courts of equity in copyright, patent and other cases of infringement. In short, there is no authority whatsoever upon which any recovery by the plaintiffs of the entire profits of the motion picture "Letty Lynton" could be predicated.

The uncontradicted proof in the record in this case afforded adequate bases for separating those profits due solely to the infringement from those profits due to the defendants' own contributions to the success of the motion picture, permitting the Court to render to each party no more than that which was justly his. Among the lines of proof thus offered were the following:

1. *Proof directed to showing that the commercial value of the motion picture was not entirely due to the use of the play.*

It was shown that the play had only a short run in New York City, namely, from February 4, 1930

to May 24, 1930, even with Miss Cornell in the title role (P. R. 37-38). The Special Master went to California and personally inspected the Studio where the picture was produced (R. 38-39). The Studio head and the heads of practically all the departments of the Studio testified as to the methods employed whereby a motion picture is produced and as to the diversified creative operations which enter into this production. This testimony showed that the making of a motion picture is far from being a matter of purely mechanical reproduction and that it involves creative operations from the beginning of the adaptation of the story to the final completion of the motion picture; in fact, that a motion picture is a *distinctively new artistic creation* (R. 83-180; 185-214).

2. *Proof showing that the commercial value and earnings of the picture were principally attributable to factors other than the use made of the story.*

It was shown that the motion picture "Letty Lynton" was licensed to practically all the exhibitors as a *Joan Crawford picture*. In the form of licensing contract it was referred to only as "Production No. 208, Joan Crawford No. 2" (Defts' Ex. 16, R. 767). 7,315 exhibitors out of 7,666 to whom it was licensed signed the above contracts before the motion picture had any other name or designation (R. 322-326; Defts' Ex. 15, R. 766). The title "Letty Lynton" was not announced to the trade or to the public until a few weeks prior to the picture's actual release in April, 1932 (R. 325). Only 351 exhibitors licensed the motion picture after its title was announced.

Thus it will be seen that the motion picture was licensed to practically all exhibitors solely on the basis of the popularity and drawing power of Joan Crawford.

Expert witnesses, whom the Court below felt justified in designating as "the best opinion of the calling" (R. 1264), testified that the commercial value of the picture evidenced by its drawing power was principally attributable to the stars, to the skill and reputation of its producer and of its director, as well as to other contributions made by the Metro-Goldwyn-Mayer Organization. These witnesses, consisting both of producers and exhibitors, testified that approximately only 10% of the profits was ascribable to the literary or written material, looking at the copyrighted property as an entirety. The witness most liberal testified to 15%; most of the witnesses allowed 10%; while some placed a valuation of only 5%. All of such testimony is factual, direct and uncontradicted. (Producers, R. 146-471, 176-180, 264-268, 278-284, 648-654, 540-562; Exhibitors, R. 562-573, 573-588, 588-592, 596-600, 600-608, 608-616, 616-622).

3. *Proof showing in general that the value of the motion picture rights of a play which is to be reproduced by a motion picture is only a small part of the entire value or cost of the finished motion picture.*

In the first place, we have seen that \$30,000 was the value placed on the motion picture rights of the play by its authors. The sale of such rights by an author is the only means open to him for procuring the reproduction of his work as a motion picture (R. 547-8, 558).

Adolph Zukor, a leader in the industry, knew of only one instance where a percentage of the receipts was used as a basis for compensation. In this instance, a payment of 7% of the gross receipts was made to Sir James Barrie for the rights to produce

the story of "Peter Pan" in a motion picture (R. 283).

The arbiter of the Dramatists' Guild, (who in general handles the sale of such rights for authors) (R. 667), testified as to prices realized from the sale of motion picture rights in plays during the period in and about the year 1932. The list of such plays and prices comprises about 32 plays (R. 675-676).

Testimony was also admitted as to the length of the runs enjoyed by the plays embraced in such list (R. 680-685).

By a striking coincidence the average price shown by such list is approximately \$30,000, the price placed by petitioners on the motion picture rights of their play, and the highest prices were materially less than the award sought to be reviewed herein. These latter prices were paid for plays which were far more successful and much better known than petitioners'.

The foregoing proof as to the prices paid for motion picture rights of plays is analogous to that used in patent cases under the so-called "reasonable royalty" rule.

4. *A comparison made of the Play and the Picture, as well as of the Trial and the Novel, for the purpose, not of contesting the finding of infringement, but of showing the extent to which plaintiffs' literary material contributed to the picture.*

The testimony of all the experts was predicated on the hypothesis that the motion picture made use of the entire copyrighted work, which, as the Court below pointed out (R. 1264) "was not the case", adding in the same connection, "Nobody can say how far this basic plot is to be credited with whatever the play contributed to the drawing power of the picture."

On the other hand, the petitioners in answer to this line of proof throughout have stood on the insistence that the Copyright Law did not permit any apportionment whatever. Their claim is that once infringement is found, and regardless of the extent of such infringement, the plaintiffs are entitled to the entire net profits. It was precisely this *reductio ad absurdum* which was presented in the case of *Harold Lloyd Corporation v. Witwer*, 65 F. (2d) 1, and which caused Judge McCormick, writing for affirmance of a finding of copyright infringement in the case of a short story which had been sold to a publisher for \$50, to prepare his learned and exhaustive dissenting opinion, explaining that the Copyright Law did not require him by reason thereof to award to the complainants all the profits of the infringing motion picture which were concededly in excess of one million dollars.

As against this contention of the plaintiffs, we direct the Court's attention to the language of Judge Hand in his opinion below (R. 4265):

"But we are resolved to avoid the one certainly unjust course of giving the plaintiffs everything, because the defendants cannot with certainty compute their own share."

And further:

"We must make an award which by no possibility shall be too small. It is not our best guess that must prevail, but a figure which will favor the plaintiffs in every reasonable chance of error. With this in mind we fix their share of the net profits at one fifth."

As we will point out, there is nothing, either in the Copyright Act or in any of the decided cases, which prevents the Court from avoiding "the one certainly unjust course of giving the plaintiffs everything."

POINT I.

The decision of the Court below is based on well established equitable principles.

Petitioners' statement of their Point I appears to carry the implication that the decision below is one which departs from a supposedly uniform course of decisions in copyright cases.

The opinions of the Courts below consider all the cases, in this country having to do with awards of profits in copyright cases. Only two of such cases were decided by the Supreme Court, *Callaghan v. Myers*, 128 U. S. 617, (1888), and *Belford v. Scribner*, 144 U. S. 488.

Although the case of *Dam v. Kirk La Shelle* (C. C. A. 2), 175 Fed. 902, was decided after the passage of the 1909 Act, that Act was not applicable because the infringement had occurred before the passage of the Act. This case was expressly overruled by the Court below (R. 1263).

Judge Hand also refers to Judge McCormick's dissenting opinion in *Harold Lloyd Corporation v. Witwer* (C. C. A. 9), 65 F. (2d) 1. This is the only case dealing with an infringement by a motion picture which in any manner considers the subject of an award of profits. There Judge McCormick declared that the profits might be and should be apportioned

(R. 1261) and the majority of the Court did not disagree with Judge McCormick on this point (R. 1196).

In England the copyright act of 1911, Section 6, confers a remedy "by way of injunction or interdict, damages, accounts or otherwise as may be conferred by law".

A search made in the two standard English digests, Halsbury's Laws of England and English and Empire Digest, and Supplements, discloses only one reported case where an actual award of profits in a copyright case was made. (*Delfe v. De Lamotte* (1857), 3 K. & J. 581.) That case involved an infringing book which *wholly* infringed the copyrighted work. It simply decided that on the accounting the defendant is entitled to deduct his expenses.

The case of *Mawman v. Tegg* (1826), 2 Russ. 385, more fully discussed under our next point, was settled before any decision was made.

In the case of *Colburn v. Simms* (1843), 2 Hare 543, the accounting filed with the defendant's answer showed an actual loss and this account was accepted.

The foregoing statement is made to rebut a possible adverse inference from respondents' failure to cite any English authorities in support of an apportionment of profits in copyright cases. The likely explanation of the dearth of English authorities on the subject is that in England the copyright proprietor must elect between damages and profits. He cannot sue for both.

Neilsen v. Betts, L. R. (1872), 5 H. L. 1;

De Vitre v. Betts, L. R. (1873), 6 H. L. 319.

"There are three recent English cases in which damages have been awarded on the basis of an apportionment as between non-infringing and infringing parts of a plagiaristic work.

Ash v. Dickie, L. R. (1936), Ch. 655;

John Lane, etc. Ltd. v. Associated Newspapers, L. R. (1936), 1 K. B. 715;

Caxton Publishing Co. v. Sutherland Publishing Co., I. R. (1939), A. C. 178.

For example, in the *Ash* case, Master of the Rolls Wright said:

"* * * the matter can only be one of estimate and the Court must act as the jury would act in similar circumstances."

POINT II.

The decision of the Court below is entirely consistent with the decisions in *Callaghan v. Myers* and *Belford v. Scribner*.

As to these two cases, the Court below stated (R. 1261):

"They hold no more than that when he (the infringer) makes no effort to discharge the duties resting upon him, he will be cast for the whole profit."

In both cases there were factual findings that the infringer's work was as an entirety an infringement of the copyrighted work.

In *Callaghan v. Myers*, 128 U. S. 617 (1888), the infringing volumes of Illinois Supreme Court Re-

ports, published as "Freeman's Reports", infringed as an *entirely* the copyrighted work. Not only were the opinions lifted bodily from plaintiff's reports, but the headnotes, arrangement of cases, indicēs, annotations, etc., were either copied verbatim, or copied with only colorable alterations. The infringing work was even sold under the same name as the plaintiff's work—"Freeman's Reports"—and carried the same page numbers as those of the copyrighted work.

The Court found that there had been no recourse to the original sources, the entire infringing work having been copied from the plaintiff's volumes (p. 660). There was no basis for apportionment solely because of the inclusion of the opinions, as to which the Court said (p. 649):

"A publication of the mere opinions of the Court in a volume without more would be comparatively valueless to anyone."

The decision was justified by the Court on the authority of *Elizabeth v. Pavement Co.*, 97 U. S. 126, where it was held that the marketable value of the infringing street pavement was wholly attributable to the wrongful use of the plaintiff's patent. "It was this thing, and not another, that the people wanted and required" (p. 141). The defendant in that case also failed to show that any of the profits were due to elements other than the plaintiff's patent. The Court said (p. 142):

"A separation of distinct profit derived from Brocklebank & Trainer's improvement, if any such profit was made, might have been shown; but, as before stated, the appellants failed to show that any such distinct profit was realized."

In the *Callaghan* case, the Court quoted a dictum of Lord Eldon's in *Mawman v. Tegg*, 2 Russ. 385 (1826) which cannot be read out of its setting. This dictum was expressed at the outset of the hearings which, extended over six days. *The case was settled* before any decision was made. Lord Eldon had, prior to settlement, referred the matter to a master for a report as to the relative amounts of infringing and, non-infringing matter, and had indicated that he considered a finding on this matter important for the purpose of disposing of the request for an injunction, and in making a disposition of the profits.

In *Belford v. Scribner*, 144 U. S. 488, the defendants published and sold two editions of a cook book, a cheaper and a more expensive edition, copied entirely from plaintiff's copyrighted work and without recourse to original sources. The Trial Court, as well as the Supreme Court, based the award of all the profits on the finding of the Special Master that (p. 493)

*** the matter and language of said books is the same as complainant's in every substantial sense.

It appears clearly from the complete report that the Master found that the entire infringing work was copied from plaintiff's, either verbatim or "with occasional change of phraseology." The report concluded as follows (p. 494):

"In all of the alleged illegal publications the defendants are shown to have used the material of the complainant instead of resorting to original sources of information."

The Trial Court in that case disregarded the so-called expert testimony referred to by petitioners clearly because the facts on which it was based were opposed to the express findings of the Master and the Trial Court. While it was true the defendants in the *Belford* case *pledged* that the infringing portions "do not exceed from 10% to 15% of the entire contents," the complainant's bill *pledged* (p. 492):

"that more than 170 receipts contained in said piratical work were copied *verbatim et literatim* from the said copyrighted work of the plaintiff, said receipts comprising a part or the whole of over 150 pages of said piratical work; that many other parts of that work, besides said 170 receipts, are infringements upon the copyrights of the plaintiff, and many of the remaining receipts are in fact copied from the plaintiff's book, with certain changes in the phraseology thereof; and that the subjects in the piratical work and the index thereto are arranged in the same order, and with almost the same headings, as in the plaintiff's work, and were copied and imitated therefrom."

Naturally, the Supreme Court made no reference to any claim of apportionment in the face of a finding that the defendants' work in "matter and language" was substantially the same as plaintiff's.

The decision in the *Belford* case also is based on the decision in *Elizabeth v. Pavement Co.*, *supra*, which the Supreme Court in *Westinghouse Electric & Manufacturing Co. v. Wagner Electric & Manufacturing Co.*, 225 U. S. 504, 614, cited as authority for the proposition, that:

"(c) Where profits are made by the use of an

article patented as an entirety, the infringer is liable for all the profits unless he can show—and the burden is on him to show—that a portion of them is the result of some other thing used by him.”

The trademark case of *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U. S. 251, is entirely consistent with the decision of the Court below. The Court in that case, in speaking of the “inherent impossibility” of an apportionment, had reference only to proof which it was impossible for the *plaintiff* to make. The Special Master below (p. 255) had found for profits in respect of shoes sold (1) bearing the stamp “American Lady” without any other distinguishing marks, and (2) stamped “American Lady” followed by the words “Hamilton-Brown Shoe Co.” but without anything to denote that the shoes were of defendant’s manufacture. *Profits were disallowed as to shoes marked “American Lady” followed by “Hamilton-Brown Shoe Co., Makers.” No efforts were there made by the defendant to show what shoes were sold solely by use of the trademark and what shoes were not so sold.*

The Trial Court had sustained exceptions to the Master’s report and had found for the plaintiff in the sum of \$1 nominal damages. On appeal, the Circuit Court of Appeals reversed the Trial Court and sustained the Master’s ruling. The Supreme Court affirmed this decision because the defendant had failed to show any basis for apportionment.

The Copyright Statute is Not to the Contrary.

The petitioners conclude their Point 11 by saying:

"It is not lacking in significance that the Copyright Law (17 U. S. C.) Section 25b provides for a recovery of 'all profits' whereas the Patent Statute (35 U. S. C.) Section 70 and the Trademark Statute (15 U. S. C.) Section 99 provide for a recovery of 'the profits.'

"'All' is missing in both the Patent and Trademark Statutes."

The phrase "all the profits which the infringer shall have made from such infringement" under Section 25(b) of the Copyright Act was not intended by the framers of the Act to make the Copyright Law in this respect any different from the Patent or Trademark Law. Under Section 4921 of the Revised Statutes applicable to Patents (now 35 U. S. C. A., Sec. 70)

"the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages * * *."

The House Committee in its report¹ on the bill which became the Copyright Act of 1909 said of Section 25(b):

"The provision that the copyright proprietor may have such damages as well as² the profits

¹ House Report No. 2222, 60th Congress, 2nd Sess., adopted by Senate as its Report No. 1108, same session.

² The omission in this confection of the word "all" should be noted.

which the infringer may have made is substantially the same provision found in Section 4921 of the Revised Statutes relating to remedies for the infringement of patents."

Nowhere in the Committee reports or in any hearings before the Committee was it suggested that any significance was to be given to the use of the word "all" or that Section 25(b) was intended to give a larger measure of recovery of profits in the case of copyright infringement than in the case of patent infringement. In patent and trade mark cases, as well as in copyright cases, the plaintiff is invariably awarded *all* the profits *attributable to the infringement* which is quite different from all the profits earned by the infringing subject.

In the hearings before the Joint Committee of the House and Senate of December, 1906 (p. 174) Mr. Arthur Steuart, who was the spokesman for those who with him drafted the bill, in referring to Section 25(b) (Section 23(b) of the bill then under consideration) said:

"* * * an attempt was made to put into this clause all of the remedies of the existing law and all of the remedies which have already been enacted by Congress with reference to patents, as well as trade-marks. * * * this clause has been drawn as a consolidation of all the remedies which had existed before with reference to copyrights, patents and trade-marks wherever there is no inconsistency."

After comparing the proposed act with the lan-

judge above quoted (*supra*, p. 19) from the Patent Law, Mr. Steuart went on to say (p. 175):

*** * * the attempt has been made in this Act to reproduce identically the same meaning in the language which has been used. Possibly it might have been better to have used exactly the same words."

The Supreme Court, in interpreting the Copyright Act, has frequently resorted to these same congressional reports, as well as the hearings referred to.⁴

This Court in *Jewell-La Salle Realty Co. v. Buck*, 283 U. S. 202, 206, after referring to the legislative history of Section 25(b), said:

*** * * the primary purpose of Section 25 was to incorporate in one section all of the civil remedies theretofore given, including statutory damages where actual proof was lacking."

A study of the history of both copyright and patent legislation shows that the award of profits is a remedy which equity itself adopted, without any statutory sanction. As Judge Learned Hand said in *Haus v. Feist* (234 Fed. 105, 108): "Equity will control its peculiar remedy of an account of profits according to its own sense of justice."

See, also:

Rubber Co. v. Goodgear, 9 Wall. 788, 804;

Packet Co. v. Sickles, 19 Wall. 611, 617.

Equity's power to administer "its peculiar remedy" is not, therefore, derived from, extended, or limited

⁴ *Jewell-La Salle Realty Co. v. Buck*, 283 F. S. 202, 206; *Westermann Co. v. Dispatch Co.*, 249 U. S. 100, 109; *Washingtonian Publishing Co. v. Pearson*, 306 F. S. 30.

by any statutes. The Copyright laws contained no express provision as to an award of profits until the 1909 Act, but in a proper case, profits were awarded long prior to 1909.⁵ There was no statutory reference to such an award in patent cases until the Act of July 8, 1870 (55th Section, which became Section 4921 of the Revised Statutes, 1873), although an accounting for profits had theretofore been a well recognized remedy in equity both in copyright and patent cases.

Profits were awarded in patent cases as early as 1853 (*Livingston v. Woodworth*, 15 How. 546).

In *Root v. Railway Co.*, 105 U. S. 189 (1881), Mr. Justice Matthews reviews the entire history of patent legislation and of the procedure for an accounting in equity for patent and copyright infringement. He shows that the effect of Section 4921 of the Revised Statutes was not to change in any manner the powers of an equity court in respect to an award of profits in patents, but only to enlarge the powers of equity courts in order to permit the award of damages in connection with an award of profits.

So also, as pointed out by the lower Court (R. 1262), the amendment made in 1922 to Section 4921 of the Revised Statutes (35 U. S. C. A., Sec. 70), permitting the use of "general evidence, expert testimony and otherwise", in connection with an apportionment was only "a delayed response" to the Supreme Court's decisions in the *Westinghouse* and *Dowagie* cases.⁶

⁵ *Stevens v. Gladding*, 17 How. 347 (1855); *Callaghan v. Myers*, 28 U. S. 617 (1888).

⁶ *Westinghouse E. & M. Co. v. Wagner E. & M. Co.*, 225 U. S. 604; *Dowagie Mfg. Co. v. Minnesota Plan Co.*, 235 U. S. 641, 647.

POINT III.

The bases of apportionment adopted by the Court below were equitable, reasonable and proper.

The apportionment made by the lower Court takes into consideration only those elements inherent in the motion picture which affect its commercial value as a marketable article; the elements which gave the picture its drawing power and made it "this thing, and not another, that the people wanted and required" (*Elizabeth v. Pavement Co.*, 97 U. S. 126, 141).

Equity in determining the gains made by an infringer from his infringement applies the principle of cause and effect in the same manner as a court of law applies that principle in determining the losses of the plaintiff, *i. e.*, legal damages.⁷ And it must be borne always in mind that it is compensation to the plaintiff for the use of his property at which equity aims, not punishment of the defendant for his tortious conduct. (*Livingston v. Woodworth*, 15 How. 546, 559.)

As the Court said in *Dobson v. Hartford Carpet Co.*, 114 U. S. 439, 445-446, in which case a rug had infringed a design patent:

...* * * to attribute in law the entire profit to the pattern, to the exclusion of the other merits, unless it is shown by evidence, as a fact, that the profit ought to be so attributed, not only, violates the statutory rules of 'actual damages'

⁷ Equity took defendant's *gains*, and not plaintiff's *losses*, as its "rule of computation and measurement"; the analogy between infringement and constructive trust was thus limited to the measurement of plaintiff's compensation. (*Roof v. Railway Co.*, 105 U. S. 189, 214; *Tilghman v. Proctor*, 125 U. S. 136, 148.)

and of 'profits to be accounted for', but confounds all distinctions between cause and effect."

See also *Reed v. Lawrence* (C. C. Mich. 1886), 29 F. 915, 918, 921.

An infringement by a motion picture of a play or script differs vastly from practically all other forms of infringement. In almost all cases the infringement consists merely in mechanical reproduction. The making of a motion picture is a creative process from the beginning of the adaptation of the story to the completion of the picture. Practically all the arts and sciences are extensively drawn upon. The completed motion picture, far from being a mere reproduction or transcription, is a *distinctively new artistic creation*.

The testimony of the defendants' experts which the Court below regarded as "the best opinion of the calling" shows what they considered to be the various elements which gave commercial value to the picture and the relative drawing powers of such elements.

First and foremost of these elements were the stars Joan Crawford and Robert Montgomery. As we have already pointed out the picture was licensed as a *Joan Crawford picture*. The exhibitors, who were called as witnesses, testified that "the thing that the people wanted" was to see the stars—in this case Crawford and Montgomery—(R. 566, 575, 579, 590, 598, 602, 618). This was not because they had performed what plaintiffs call "labor" but because they as the stars of the picture were more responsible by far for the commercial value of the picture than any other contributing element. "The public went to see the picture because their favorite stars appeared in the picture, and this regardless of the story unfolded by the film.

So also, the producer, the director, the scenery and the other original elements supplied by the defendants were held to have added to the drawing power of the picture, apart from the story which it told (R. 1265);

As also pointed out by the Court below, the defendants' experts based their estimates upon the contribution of the *entire* play, and this despite the finding of the Court below that

*** much of the picture owes nothing to the play; some of it is plainly drawn from the novel" (R. 1206).

Nor was the fact taken into consideration that much of plaintiffs' play was not entitled to copyright protection. As to this the Court said:

"*Nobody can say how far this basic plot is to be credited with whatever the play contributed to the drawing power of the picture. That consideration must therefore count towards reducing the percentage of profits received*" (R. 1264).

The above factors to which drawing power has been assigned by the Court and by the experts are far from being "labor and materials" as contended by the petitioners.

The case of *Duplate Corp. v. Triplex*, 298 U. S. 448, 457, and related cases, state a principle which is applicable to infringement by *entirety* of a patent covering a machine or process. Under this principle, where a defendant has manufactured and sold a patented article involving merely mechanical reproduction, he cannot claim any special allowance for

superlative skill that he may have exercised in manufacturing the article; or for any degree of efficiency, intelligence, aggressiveness and the like, which may have been used in the exploitation and sale of such article. The factors for which defendants here claim credit are more than this and are all inherent in the picture and contributed to its "commercial value as a marketable commodity" (*Crosby Valve Co. v. Safety Valve Co.*, 141 U. S. 441, 454). In the instant case no allowance whatever was made on account of the standing and reputation of the defendants in the industry, nor for superior skill or intelligence; nor for "factories and lands, patents and machinery", and the like. The only allowance that the respondents received was compensation for converting a play, as to only part of which plaintiffs were entitled to copyright protection, into a successful motion picture; and the plaintiffs have had allowed to them, by the judgment of the Court below nearly four times the price for which they would have been glad to sell the motion picture rights to the play provided the sanction of the Hays office could be obtained. Concededly this sanction was not forthcoming.

The admissibility of this expert testimony is sustained not only in the *Westinghouse* case (225 U. S. 604) and the *Dowagiac* case (235 U. S. 641) but in numerous other cases, including *Stromberg Motor Devices Co. v. Detroit Trust Co.* (C. C. A. 7), 44 F. (2d) 958, 961; *Herman v. Youngstown Car Mfg. Co.* (C. C. A. 6), 216 Fed. 604, 608; *Standard Scale & Supply Co. v. Cropp C. M. Co.* (C. C. A. 7), 6 F. (2d) 447, 455.

In *Herman v. Youngstown Car Mfg. Co.*, *supra*, Judge Denison gave weight to the testimony of "a

man of experience in the manufacturing and selling field", as one who could "form thereon an intelligent and useful opinion".

In *Stearns-Rogers Mfg. Co. v. Rush*, 87 F. (2d) 35, 39 (Petition, p. 23), the Court was not passing on the *admissibility* of the expert evidence there offered, but merely on the *weight or value* of such evidence under the facts of that case.

The Court below adopted the bases of apportionment above indicated. In doing so it was "resolved to avoid the zone certainly unjust course of giving the plaintiffs everything" and to give the plaintiffs the benefit of all such doubts as existed by taking a "figure which will favor the plaintiffs in every reasonable chance of error" (R. 1265-6).

To avoid injustice, the Courts have even gone so far as to approve of speculative approximation as a basis for apportionment.

Page Machine Co. v. Dow, Jones & Co.
(D. C. N. Y., 1916), 238 Fed. 369, 376;

Bush & Lane Piano Co. v. Becker Bros.
(C. C. A. 2, 1916), 234 Fed. 79;

Cohan v. Commissioner of Internal Revenue
(C. C. A. 2, 1930), 39 F. (2d) 540, 543, 544.

Furthermore the award of the Court is in any event sustainable as one made "in lieu of actual damages and profits", in an amount which "to the court shall appear to be just".

In *Douglas v. Cunningham*, 294 U. S. 207, at page 210, it was stated that the purpose of the so-called "in lieu" provisions was to enable the Court to do justice "in a case where the rules of law render diffi-

cult or impossible proof of damages or discovery of profits".

This is in accord with the explanation as to the purpose of the "in lieu" provisions given by Mr. Arthur Stewart, to whom we have already referred (*supra*, p. 20):

"The language of the section 'in lieu of actual damages and profits, such damages as to the court shall appear just', would appear to put into the court the *absolute right* where it was an equity case to decide what should be allowed in the way of liquidated damages * * *." (Hearings of December 7-11, p. 176.)

POINT IV.

The effect of the finding of "deliberate plagiarism" is only to impose on the defendants the duty of showing reasonable bases of apportionment.

Before explaining the nature of the finding of "deliberate plagiarism", it should be noted that in *Westinghouse v. Wagner*, 225 U. S. 604 (at p. 620), the Court, referring to the privilege extended therein to defendants to show "by general evidence, expert testimony or otherwise" that the patented elements did not "at the utmost" contribute "to more than a given amount of the profits", said that:

"In such cases, except *possibly* against one who had concealed or destroyed evidence or been guilty of gross wrong, the plaintiff's recovery cannot exceed the amount thus proved, even

though it be impossible otherwise more precisely to apportion the profits."

There has never been any suggestion by the Master or by either of the Courts below that the defendants have "been guilty of gross wrong".

Judge Woolsey upon the trial, in dismissing the complaint, held that the defendants "did not copy anything therein or take anything therefrom which was protected by copyright * * *" (P. R. 907). The principal question in the case throughout has turned upon the scope of plaintiffs' copyright, a question of law as well as of fact.

Judge Hand in his first opinion said:

"* * * much of the picture owes nothing to the play; some of it is plainly drawn from the novel" (R. 1306).

The infringement did not involve use of any of the dialogue, but was confined to the plot (R. 1304-6). And, even as to the plot, the Court said (R. 1303):

"* * * much of the play was borrowed from the story of Madeleine Smith, and the plaintiffs' originality is necessarily limited to the variants they introduced."

Finally, after expressing the conclusion that "the defendants used the play *pro tanto*", the Court said:

"With so many sources before them they might *quite honestly forget what they took*; nobody knows the origin of his inventions; memory and fancy merge even in adults. Yet *unconscious plagiarism* is actionable quite as much as deliberate" (R. 1303).

Upon the basis of the first opinion, in passing on the question of deductibility of Federal income taxes, the Special Master was of the opinion that the defendants had been found not to have been guilty of wilful and deliberate infringement (R. 1034). So also in Judge Leibell's opinion in the District Court (R. 1204), in sustaining the right to such a deduction, Judge Leibell said:

"In the present case, the District Judge dismissed the bill and his ruling was reversed by the Circuit Court of Appeals. The District Judge certainly believed that the issues raised by the defendants had merit. The Circuit Court of Appeals in its opinion stated that in dismissing the complaint the District Judge was following the Circuit Court's decision in *Nichols v. Universal Pictures Corp.* (*supra*) (45 F. (2d) 119). To refuse to permit the defendants to deduct the corporate income taxes they paid on the profits of 'Letty Lynton' would be in effect the imposition of a penalty, superimposed on the judgment for profits herein."

When the case came again before the Circuit Court of Appeals and this time merely on the appeal from Judge Leibell's decree, which sustained with slight modifications the Special Master's report, and without any new evidence on the issue of infringement, one way or the other, Judge Learned Hand stated (R. 1265):

"No new light has come, and we now hold that the borrowing was a deliberate plagiarism."

Where was this "new light" to come from?

The Special Master was not authorized either by the opinion of the court or by the accounting decree to receive additional evidence on the question of infringement; and even if such additional evidence had been offered before him, we are confident it would not have been received.

The defendants' writers in their depositions offered at the trial had all testified frankly that they had seen the plaintiffs' play, and one of them had testified to having read the script, but all of them had denied that they copied it (P. R. 92, 110, 118-9, 128, 134-5, 140-1). None of these writers was called in the accounting proceedings for the reason hereinbefore set forth. The record discloses no claim that evidence was either concealed or destroyed.

The Court, in rephrasing its decision as to the nature of defendants' infringement, seems to have departed from the cases which hold that a favorable decision below is of itself sufficient to relieve a defendant from a claim of wanton or wilful infringement. Thus the Court below in a case where interest was refused on profits for a period prior to the filing of the Master's report (*Endenburgh v. Concrete Steel Co.* (1921), 278 Fed. 607, 610), said:

"There is no evidence of wanton infringement. The mere fact that the courts held different views as to the claims of the patent is sufficient to negative any such suggestion."

The Court below also in a later case (*Stromberg Motor Devices Co. v. Zenith-Detroit Corp.*, 73 F. (2d) 62, 65), relieved a defendant who had deliberately tested a patent, from a charge of wilful infringement, saying:

"It (the defendant) did deliberately test this patent. It claimed it to be invalid and denied in-

fringement. The issues raised were not without merit, as is made clear by the fact that it prevailed in the District Court and obtained a decree which we reversed on appeal.²

² See also: *Metallic Rubber Tire Co. v. Hartford Rubber Mfg. Co.* (C. C. A. 2, 1921), 275 Fed. 315, 326; *Philadelphia Rubber Wks. Co. v. U. S. Rubber Reclaiming Wks.* (C. C. A. 2, 1921), 277 Fed. 171, 179; *Rockwood v. General Fire Extinguisher Co.* (C. C. A. 2, 1930), 37 F. (2d) 62, 66; *Vrooman v. Penhollow* (C. C. A. 6, 1915), 222 Fed. 894, 899.

Thus we claim that even if the finding of "deliberate plagiarism" be allowed to stand, the defendants should not in any event be deemed "guilty of gross wrong", for it is obvious that the Court below did not regard this case as falling within the exception expressed in the *Westinghouse* case (*supra*, p. 28).

In *Dowagiac Mfg. Co. v. Minnesota Piping Co.*, 235 U. S. 641, while the Court did, in the course of its opinion, refer to the infringement as not "wanton or wilful", it should be noted that there, *plaintiffs* had neither apportioned nor attempted to show that apportionment was impossible, "although the evidence upon the accounting went far toward showing that there was no real obstacle to a fair apportionment" (p. 647).

In the present case, the defendants have assumed the burden of apportionment and established bases of apportionment satisfactory to the Court below.

As to the trademark case of *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251, we have already pointed out, (*supra*, page 18,) that the defendant's

difficulty there was that he had not assumed the burden of apportionment, but sought, rather to cast that burden upon the plaintiff. The only alternatives, therefore, left to the Court were either to award all the profits to the plaintiff or to reduce his award merely to nominal damages.

The other cases cited by petitioners at page 25 of their petition hold no more than that under similar circumstances where the plaintiff has shown the impossibility of his making an apportionment, the defendant must bear the burden of apportionment or suffer the consequences.

The great weight of authority now is that even if one is a conscious wrongdoer, he can avoid a forfeiture by reason of a mingling of funds, etc., by offering satisfactory proof upon which the plaintiff's proportionate recovery can be based. *Restatement on Restitution*, Sections 209, 210 (with comments and illustrations) and 214.

In a recent case in the House of Lords, *Sandeman v. Tyzack* (1913) A. C. 680, at page 695, Lord Moulton says that this subject of confusion is "far from being within the domain of settled law" and that the cases usually are "instances of cutting the Gordian knot" which call for "reasonable adjustments of the rights of the parties".

POINT V.

The payment of \$922,141.09 to Messrs. Mayer, Rubin and Thalberg was properly allowed as an expense of the Pictures Corporation and as a proper item of "general studio overhead".

This amount of \$922,141.09 was an item of "general studio overhead" which was allowed by the lower Court (R. 1266). Only .018 per cent of this amount, or the sum of \$16,598.54, was chargeable to the motion picture "Letty Lynton". It served to reduce the judgment entered by one-fifth of such amount, or the sum of \$3,319.71.

The history of the employment contracts was told by Mr. Rubin (R. 717-733). The actual contracts are printed as Defendants' Exhibit 33 (R. 833-882). The individuals named were paid for their services a fixed salary plus an additional compensation measured by profits. Although the profits of Loew's in February, 1927, became the yardstick whereby the additional compensation was measured, the payments when the amounts thereof were determined were always made by the defendant Pictures Corporation, and not by Loew's Inc. (R. 710-13). Loew's was the owner of all the common stock of the Pictures Corporation (R. 770).

Although this compensation was measured by profits, the *actual* profits of the Pictures Corporation embraced only the sum remaining after this compensation had been paid. The moneys so paid out were never "profits" of the defendants, except as designated in a formula by which the amount thereof was determined. "The infringer was liable for actual, not possible, gains." (*Tilghman v. Proctor*, 125 U. S. 136, 146.)

The arrangement long antedated the infringement. The payments were actually made. Their good faith has not been questioned.

As stated in *Larson v. Wrigley* (C. C. A. 7, 1927), 20 F. (2d) 830 (at p. 832):

"Where the injured party seeks the profits of an infringer, he takes the chance of their reduction, or even extinguishment, through expenses and losses actually incurred, however unwisely or even improvidently, so long only as they were incurred in good faith."

As stated by the lower Court (R. 1266):

"* * * The payments were never profits of the defendants at all; the contracts effectively laid hold of them the moment they came into existence."

In *Stromberg Motor Devices Co. v. Zenith-Detroit Co.* (C. C. A. 2, 1934), 73 F. (2d) 62, the Court, at page 65, said:

"The defendant's contract with its president was made before any question of infringement of the Mock patent arose, and was not an unusual one. *The profits the defendant made from the infringement* were actually used as a part of the measure of the commission paid to its president in addition to his regular salary. The *actual profits* to the defendant as a result of the infringement were by so much reduced, and, as the plaintiff is entitled only to those actual profits, the credit was properly allowed."

See, also, *Stromberg Motor Devices Co. v. Detroit Trust Co.* (C. C. A. 7), 44 F. (2d) 958, 963.

It must, therefore, necessarily follow that where a defendant has paid out as an element of cost any sum, whether in the form of salary or as additional compensation measured by profits, it is entitled to deduct that sum in ascertaining its net profits.

CONCLUSION.

It is respectfully submitted that the petition does not present adequate reasons for the allowance of the writ of certiorari applied for.

November 14, 1939.

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Appendix A.

Pertinent Portions of Section 25(b) of The Copyright Law Of The United States (Title 17, U. S. C., Section 25).

"Sec. 25. That if any person shall infringe the copyright in any work protected under the copyright laws of the United States such person shall be liable:

"(b) To pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only and the defendant shall be required to prove every element of cost which he claims, or in lieu of actual damages and profits such damages as to the court shall appear to be just, * * & "